



State of Washington
Department of Revenue

Excise Tax Advisory

Excise Tax Advisories (ETA) are interpretive statements issued by the Department of Revenue under authority of RCW 34.05.230. ETAs explain the Department's policy regarding how tax law applies to a specific issue or specific set of facts. They are advisory for taxpayers; however, the Department is bound by these advisories until superseded by Court action, Legislative action, rule adoption, or an amendment to or cancellation of the ETA.

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FINANCE RESERVE CREDITS AND GROSS INCOME OF THE BUSINESS

Revised: March 1, 1993

This Excise Tax Bulletin is a clarification and does not indicate a change in the Department's position. It explains the Department's position on the fees vendors receive from financial institutions for arranging financing.

Vendors often receive fees from financial institutions for arranging financing in connection with their sales. These fees may be received pursuant to an interest participation agreement under which the vendor receives a portion of the interest charged by the financial institution. Such fees are sometimes credited to a finance reserve account as earned, with periodic payments made to the vendor. Other arrangements may have the vendor receiving an immediate fee at the time the loan is arranged.

The business and occupation tax is imposed upon the gross income of the business and collected from every person ". . . for the act or privilege of engaging in business activities." RCW 82.04.220. The term "gross income of the business" is defined by RCW 82.04.080 to mean:

[T]he value proceeding or accruing by reason of the transaction of the business engaged in and includes gross proceeds of sales, compensation for the rendition of services, . . . interest, discount, rents, royalties, fees, commissions, dividends, and other emoluments however designated, . . .

ETBS have been made Excise Tax Advisories, and have retained their old number. Advisories with a 2 (plus three digits) are new advisories, ETBs that have been revised and readopted after review under the Department's regulatory improvement program, or advisories that have been revised and/or readopted.

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It is the Department's position that these interest amounts are subject to the service B&O tax. This includes amounts accrued to the dealer in a finance reserve account and held by the finance company to guarantee payment on loans which might later prove to be uncollectible.